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FINANCIAL ADMINISTRATION OF THE COMMON-WEALTH OF MASSACHUSETTS

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Introduction

The state government of Massachusetts is financed by revenues appropriated annually by the legislature, by revenues expended under standing statutory provisions and without appropriation, and by loans.

A budget, in the sense of a comprehensive financial plan with recommendations for all classes of expenditures and a plan of financing them, has never been prepared. For such departments and work as are financed from revenues annually appropriated, the departmental officials submit estimates to the state auditor who tabulates them, without modification, for the use of the legislature, governor and the Commission on Economy and Efficiency, an agency to conduct investigations for both the legislature and the governor. In addition to the departmental estimates, numerous petitions for appropriations are introduced into the legislature with the result that the auditor's tabulation cannot be accepted as complete, and no other tabulation of proposed expenditures is made.

The departmental estimates and other proposals for expenditure are acted upon exclusively by the legislature and its agent, the Commission on Economy and Efficiency. The governor takes no part in the preparation or revision of estimates, his action in appropriation matters being limited to the approval or veto in its entirety of each supply measure passed by the legislature. The law provides that the auditor's tabulation of estimates shall be submitted to the governor-elect approximately three weeks prior to the convening of the legislature, but such a practice has little significance since the law makes no other specific provision for the governor's participation in budget making and no facilities for the preparation of a budget are furnished him.

The present law governing the preparation of departmental

estimates was enacted in 1912 and supplanted an act passed in 1910 which provided that the auditor's tabulation of departmental estimates shall be submitted to the governor and council "for examination, and the governor shall transmit the same to the general court with such recommendations, if any, as he may deem proper." With respect to estimates for "special purposes," *i.e.*, in addition to those covered by regular, annual appropriations, the law of 1910 further provided that the governor "shall make recommendations as to how much should be raised by the issue of bonds and how much should be paid out of current revenue."

The purpose of the act of 1910 was to place the responsibility for a budget upon the governor. It was claimed by proponents of the law that under its provisions the governor "must exercise control and be responsible for increase in expenditures and in the debt as well." The law became fully operative in 1911 and it soon became evident that the governor and council had neither the authority nor the facilities for investigating the administration of the departments in order to determine the reasonableness of the estimates. The law contemplated that the auditor's office would furnish such data as might be needed, but no increase in the personnel of that office was authorized. The auditor furnished data relative to receipts and payments but had no means for assisting the governor in determining whether the departments were in genuine need of the amounts contained in the estimates. At the request of the governor, the legislature authorized him to investigate the departments and for this purpose public accountants, engineers and other investigators were temporarily engaged. On the basis of the reports of his investigators, the governor submitted from time to time throughout the legislative session, recommendations on practically all of the estimates. Material reductions in the estimates of some departments were recommended by the governor, but the legislature was influenced to only a small degree by the governor's messages and proceeded with its appropriation bills in much the same manner as formerly.

Although the law of 1910 did not prove satisfactory, it cannot be regarded as a failure of the principle of an executive budget. The intent of the law was to place responsibility for the estimates upon the governor, but the legislature in fact never relinquished its prerogatives and did not give the governor adequate means for in-

vestigation and preparation of a budget. Moreover, it is extremely doubtful if a genuine executive budget procedure can be adopted so long as the state government remains in its present status of decentralization with over 100 distinct units of organization controlled by some 335 officials and members of boards. Another obstacle in the way of an executive budget is the annual election of the governor.

In order to correct one of the defects in the law of 1910, the legislature created in 1912 a permanent investigating body, the Commission on Economy and Efficiency. At the same time, the governor's authority and responsibility for recommending appropriations were abolished and the whole function of budget making was taken back into the legislative branch. The 1912 law provides that the Commission on Economy and Efficiency shall examine the departmental estimates and "shall report thereon to the general court," thus making the commission a legislative agency so far as the investigation of estimates is concerned. On other subjects, however, the commission is required to investigate sometimes for the governor and at other times for the legislature.

Further changes in the methods of handling estimates and making appropriations have been advocated recently. In his last inaugural address, Governor Walsh made a recommendation for again placing upon the governor the responsibility of submitting estimates to the legislature. A special committee on legislative procedure at the last session recommended several changes in methods of preparing estimates and drafting appropriation acts. No changes resulted from these recommendations, which are here referred to as evidence of the efforts being made to effect improvements in the state's appropriating machinery.

At present, different methods are followed in administering the revenues subject to annual appropriation, the revenues expended under standing statutory provisions, and loans. The procedure for each class will be described in some detail.

Revenues Subject to Annual Appropriation

The principal classes of revenue subject to annual appropriation are a general property tax, known as the "state tax," corporation taxes, inheritance taxes, licenses, and departmental revenues, together with assessments on Boston and neighboring cities and

towns in the "metropolitan" district to reimburse the commonwealth for the costs of acquiring, constructing and operating water and sewer systems and parks for those municipalities. With the exception of the state tax and the metropolitan assessments, the revenues are assessed and collected at established rates. The state tax is fixed annually by the legislature at that sum which with the estimated receipts from other revenues will equal the total amount appropriated by the legislature.

Each important stage in making annual appropriations is briefly described in the following outline, and a more detailed description of the preparation and investigation of estimates and of the form of appropriation acts is then given. First, however, it may be well to explain that the fiscal year for the state ends on November 30; the governor is elected annually in November and is inaugurated on the first Thursday in January; and the legislature convenes on the first Wednesday in January of each year.

Outline of Appropriation Procedure

The appropriation procedure may be summarized as follows:

(a) Preparation of estimates by department officials and submission to state auditor not later than November 15 of each year.

(b) Tabulation of departmental estimates, without revision or change, by auditor and submission of tabulation to governor-elect and to State Commission on Economy and Efficiency not later than December 15.

(c) Publication by auditor of departmental estimates, together with his estimates of revenue for ensuing fiscal year, in a report submitted to the legislature on the first Thursday of January.

(d) Report and recommendations of Commission on Economy and Efficiency to legislature "as to any or all of the appropriations requested or the method of raising money for the same, as it may deem expedient," submitted "annually on or before the first Thursday in January, and at such other times as it may see fit."

(e) Preparation by House Committee on Ways and Means of appropriation bills for meeting ordinary, recurring expenses. As a rule a separate bill is prepared for each department or institution but in some instances two appropriation bills are drafted for a single department. The bills are reported to the House in whatever order they may chance to be prepared. The bills are based

on the estimates tabulated by the auditor, supplemented by information obtained at committee hearings or submitted by the Commission on Economy and Efficiency.

(f) Legislature's action on appropriation bills for ordinary expenses. These bills, when reported out by the House committee, follow the usual course of legislation and almost without exception are enacted in the form reported by the Committee on Ways and Means.

(g) Governor's action on appropriation bills for ordinary expenses. One or more separate bills for each department or institution, as enacted by the legislature, are laid before the governor for his action from time to time throughout the legislative session. These bills are invariably approved by the governor.

(h) Legislature's action on appropriations for "special" purposes to be met from revenue. Requests for "special" appropriations submitted by departmental officials are included in the auditor's tabulation, but other requests for "specials" are submitted directly to the legislature. All requests are first referred by the legislature to the committee concerned with the activity or function for which a special appropriation is sought. For each special appropriation which is approved, the committee reports an authorization in the form of a "resolve" or "special act," which is then referred to the House Committee on Ways and Means for a report. In contrast to the favorable action taken on their appropriation bills for ordinary expenses, the Ways and Means Committee's reports on "specials" are frequently not accepted by the legislature.

(i) Governor's action on measures authorizing "special" appropriations. The separate resolve or act authorizing each "special" appropriation is submitted to the governor who not infrequently vetoes such measures.

(j) Preparation by House Ways and Means Committee and enactment by legislature of appropriation bills for such "specials" as have been authorized, all "specials" being included in three or four bills.

(k) Preparation by House Ways and Means Committee of a bill fixing the "state tax" and apportioning it among the cities and towns of the commonwealth. The act fixing the state tax is passed near the close of the legislative session and in the form drafted by the Committee on Ways and Means.

Preparation and Investigation of Estimates

In part, the form of the estimates is determined by Chapter 719 of the Acts of 1912 which requires departmental officials to submit to the state auditor "statements showing in detail the amounts appropriated for the current fiscal year, estimates of the amounts required for the ensuing fiscal year, with an explanation of the reason for any increased appropriation, and with citations of the statutes relating thereto, and the expenditures for the current year and for each of the two years next preceding." The law further requires that separate statements of estimates for any "special purposes or objects . . . in addition to the ordinary running expenses" shall be submitted "in detail" to the auditor.

For many years, the statutes have required the submission of estimates to the auditor for tabulation and presentation to the legislature. In carrying out this provision of law it has become customary for the auditor to draft forms to be used by the departments in submitting their annual estimates. For the 1915 estimates the forms were revised so as to require more information and a more nearly standard classification than formerly.

In each of the two tabulations of estimates required by law, the auditor incorporates the estimates for current expenses and those for "special purposes" in separate reports. For many departments and offices, the estimates for current expenses are presented in practically the same detail as that used in the appropriation acts, but for each institution the estimates are given in from seven to ten items while the act grants a lump sum appropriation. Additional details as required by the estimate sheets sent out by the auditor's office are not tabulated but are available for use by the Ways and Means Committee and the Commission on Economy and Efficiency. In addition to the estimates for current expenses, the tabulation shows the appropriations and expenditures for the preceding year, together with the unexpended balances at the end of the year.

The tabulation of estimates for "special purposes," which is presented in a separate report, shows the departmental estimate for each proposed building or project together with brief explanatory statements of the officials' reasons for requesting an appropriation. The detail in these estimates is usually the same as that appearing in the resolves providing for such of the work as is authorized by the

legislature. Neither the tabulation of current items nor that of "specials" contains any summary or recapitulation of the total requests to be financed from revenue.

The second tabulation of estimates made by the auditor is submitted in the form of two legislative documents (House Documents Nos. 1 and 2), one containing the estimates for current expenses and the other, the estimates for special purposes. The estimates are presented in the same form as in the tabulation for the governor-elect and the Commission on Economy and Efficiency. The second report differs, however, in that it presents expenditure figures for the last three years and omits the data on unexpended balances. In his second tabulation, the auditor also shows his estimate of the amount which will be received from each principal class of revenue subject to annual appropriation.

In addition to the estimates submitted to and tabulated by the auditor, large appropriations are requested by petitions submitted directly to the legislature. In the session of 1915, approximately 200 petitions requesting over \$2,500,000 in appropriations to be met from revenue were submitted directly to the legislature and thus omitted from the auditor's tabulation. Of this amount, only a negligible sum represented requests which could not have been submitted in time for tabulation by the auditor. With few exceptions, the appropriations requested in the legislative petitions were for departmental and institutional purposes of the same nature as the "specials" tabulated by the auditor. The "specials" in the auditor's tabulation amounted to \$2,630,103 or a little over one-half of the total requests of this class. Bond issues of over \$8,000,000 were also requested in petitions to the legislature. None of these was included in the auditor's tabulation, since that statement, as previously explained, is limited to revenue appropriations.

Those requests for appropriations submitted as petitions cannot be considered by the governor, the Commission on Economy and Efficiency or others interested in budget making until the petitions have been referred to the several legislative committees and printed. With such a practice in force, it is impossible for a genuine budget to be prepared.

Supplementing the estimates submitted to the auditor, plans and specifications for the construction of proposed buildings at state institutions must, by provision of law, be submitted by the

institutional officials to the state board having supervision over their institution, or in the case of institutions not under the supervision of a state board, to the committees of the legislature by whom the request shall be considered. The procedure required by this law has assisted in improving the character of construction as well as giving the legislature a basis for considering and granting appropriations for new buildings and other improvements at state institutions. In one respect, however, the procedure under this law should be radically changed, so as to avoid paying architects large sums for plans which are used only in making unsuccessful attempts to procure appropriations.

The Commission on Economy and Efficiency has investigated estimates for both ordinary expenses and "special purposes" and has presented its material and conclusions partly by means of conferences with the House Committee on Ways and Means and partly by written reports. In its studies, the Commission has made a special effort to collect facts relative to the work conditions and needs of the state institutions whose requests constitute a large proportion of the total sum asked for "special purposes." In addition to the returns made to the auditor and to the plans and specifications for new buildings submitted in compliance with law, the institutional officials have furnished to the Commission on Economy and Efficiency further data on proposed construction together with statistics on the physical plant, such as accommodations for patients and employees, etc. The information has been furnished in response to a questionnaire designed to develop facts which would furnish the means for testing and interpreting the figures on estimated and actual expenditures submitted to the auditor.

Form of Appropriation Acts

As a rule, a separate appropriation act is passed for the expenses of each department and state institution. Exceptions occur, however, and in some instances several appropriation acts are passed for a single department while a small number of acts (four in 1915) are passed for "sundry miscellaneous expenses." The larger part of the appropriations in these miscellaneous acts are for work or purposes authorized by the legislature then sitting, including the construction of institutional buildings, public improvements and other "specials" which do not properly come within the title "expenses."

The acts granting appropriations are in a variety of forms, and the only factors commonly specified are (a) the revenue from which money is appropriated, as "ordinary revenue" or some special class of revenue as the assessments on the Metropolitan Park District, and (b) the period in which the appropriation is available for use. The appropriations for some departments and institutions are made in lump sums and for others in detail, but with no logical reason for the differences.

Some acts designate the department or official authorized to expend the appropriation while others contain no reference to any department or official. In the latter case no practical difficulty arises as to authority since appropriations are granted only for such work or purposes as have been previously authorized by a statute which designates the department or official to perform the work.

In many instances, the salaries of officials and employees are fixed by law and, as a rule, the acts appropriate separately for such salaries, while allowances for other salaries are grouped or are merged with other objects of expenditures. In those acts which appropriate in some detail for a single department, half or more of the items frequently specify the amount allowed for salaries which are fixed by statute. For example, in 1915 the appropriation act for the office of the treasurer, an elective official, contains 19 items of which 15 are for the salaries of individuals, from the treasurer down to a messenger at \$1,000.

Some appropriation acts specify the amounts to be expended on distinct functions and sub-activities, some of which are unimportant, and other acts specify the amounts for the several organization subdivisions of a department.

The appropriations for "special" purposes, principally construction work, are included in the acts for "sundry miscellaneous expenses," as previously explained. The amount granted for each institution or undertaking is stated as a lump sum in the appropriation act but a reference is given in each instance to the legislative resolve, which specifies the sum appropriated for each principal piece of construction or job.

The four acts for so-called "sundry miscellaneous expenses" in 1915 contain 138 distinct items of appropriation, the number of items in a single act ranging from 9 to 54. The total amount carried by each of these four acts is not stated therein, neither are the

items classified or arranged according to any system nor are they listed in the index to the session laws, for the reason that these appropriation acts are considered as perfunctory measures, being made up largely of items for which separate resolves were passed by the legislature. With slight changes in methods, the amount appropriated to meet the requirements of new legislation might be clearly shown in a single appropriation act. This information may be obtained from a statement issued by the state auditor shortly after the close of each legislative session, but unfortunately this statement receives little attention.

The number of appropriation acts passed in each month of the legislative session of 1915 and the amount appropriated in each month are shown in the following statement:

Month	Number of acts	Amount
January.....	18	\$1,194,907.44
February.....	34	5,795,018.85
March.....	61	10,594,275.59
April.....	16	2,986,295.04
May.....	5	1,372,058.00
June.....	2	786,623.31
Total.....	136	\$22,729,178.23

Revenues Utilized Under Standing Statutory Authority

The revenues which are not subject to annual appropriation but are expended under standing statutory authority comprise several classes of imposts, as motor vehicle fees, highway assessments levied on counties, assessments on cities and towns for harbor improvements, etc., together with the earnings of institutional industries and other undertakings, and the interest from invested funds. The amount of revenue collected from these sources and expended without specific appropriation could be ascertained only by extended investigation, but in 1914 the chief sources of such revenue, exclusive of interest from investments, produced over \$2,240,000 or approximately 10 per cent of the receipts from revenue subject to annual appropriation. Practically all this sum is used for meeting expenses of operation and maintenance and construction costs of the same nature as those met from revenue subject to annual appropriation.

The statutes governing the expenditure of revenues not subject

to annual appropriation indicate in general but not in detail, the purposes or objects for which they may be used. No information concerning these revenues is presented in the auditor's tabulations of estimates for the legislature, and in fact, neither that body nor the governor have any important part in the administration of these public funds. In the auditor's annual report, detailed statements of the receipts and expenditures of non-appropriated funds are given but they are understood by very few persons other than the officials who administer them.

Loans

Although Massachusetts has for many years expended large sums of current revenue for new work, bonds have been issued extensively, principally for construction of armories, institutional buildings, additions to the State House, highways, harbor developments, and war expenses. Bonds issued for these purposes are known as "direct debt" of the state. State bonds have also been issued to finance the construction and development of parks, water systems and sewer systems in the so-called Metropolitan districts. These latter, known as the "contingent debt" of the state, are to be met by assessments levied on the benefited cities and towns.

By a law enacted in 1912, all state bonds must be issued on the serial payment plan. With the exception of a few loans for indefinite periods, the statutes specify the period for which the bonds may run. The statutes usually name only the general purpose for which the proceeds of the loans are to be used, but occasionally the law specified in some detail the work to be financed. Many issues are authorized for a stated sum with provisions that a specified portion of the total may be issued each year for a term of years, on the recommendation of the department expending the loan, but with a provision that any proposed issue of a portion of the bonds must be approved by the governor and council. Some bond acts require a similar approval before the expending department can execute contracts for construction or other work.

Legislative bills for bond issues originate from recommendations of state officials, from petitions of members of the legislature or of citizens interested in the development of some branch of state work. The bill or petition follows the same course as that described for appropriation bills for "special purposes," being referred to the

committee concerned with the proposed work. If that committee reports in favor of a bond issue, its bill is referred to the House Ways and Means Committee. Each proposed bond issue is considered separately, no attempt being made to prepare a loan budget, nor to study the loan measures in their relation to revenues devoted to the same general purposes as are contemplated in the loan bills. A separate act or resolve is enacted for each approved bond issue, thus placing each loan project before the governor for his approval or veto. In 1915, 20 separate bond issues were authorized by the legislature, of these 9 were "direct debt" loans aggregating \$3,076,000, and 11 were "contingent debt" loans for \$697,000.

While the bond issues of Massachusetts appear to have been authorized for carefully considered purposes or projects, it is questioned whether the state has succeeded in granting funds to its several departments and institutions in proportion to their genuine needs. The method of administering the finances makes difficult such an allotment of moneys. With some of the largest spending departments financed in part from revenues annually appropriated, in part from revenues expended under standing or continuing statutory provisions and in part from bonds which may be issued annually for a term of years, on the recommendation of the departmental officials, it is exceedingly difficult to secure well balanced grants of public funds.